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December 16, 2000

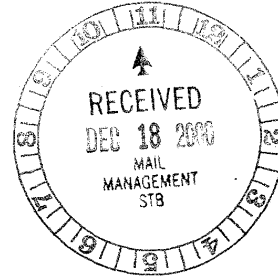
VIA FEDERAL EXPRESS

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W., Room 700
Washington, DC 20006

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Re: **Ex Parte No. 582 (Sub-No. 1)**
Major Rail Consolidation Procedures

Dear Secretary Williams:

Enclosed for filing in the above-captioned proceeding are an original and twenty-five copies of the **Reply Comments of Wisconsin Central System**, dated December 16, 2000. A 3.5-inch computer diskette containing the text of the comments in WordPerfect 7.0 format also is enclosed.

I have included an extra copy of this transmittal letter and of the reply comments, and would request that you date-stamp those items to show receipt of this filing and return them to me in the provided envelope.

Should any questions arise regarding this filing, please feel free to contact me. Thank you for your assistance on this matter.

Respectfully submitted,

Thomas J. Litwiler
Attorney for Wisconsin Central System

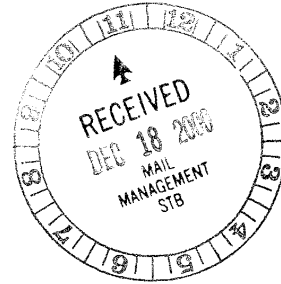
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Enclosures

cc: Parties of Record

201043

BEFORE THE
SURFACE TRANSPORTATION BOARD



EX PARTE NO. 582 (SUB-NO. 1)

MAJOR RAIL CONSOLIDATION PROCEDURES

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**REPLY COMMENTS OF
WISCONSIN CENTRAL SYSTEM**

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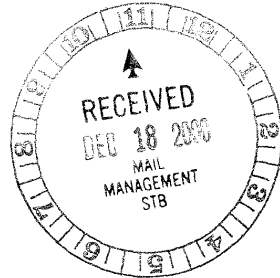
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**ATTORNEYS FOR WISCONSIN CENTRAL
LTD., FOX VALLEY & WESTERN LTD.,
SAULT STE. MARIE BRIDGE COMPANY,
WISCONSIN CHICAGO LINK LTD. AND
ALGOMA CENTRAL RAILWAY, INC.**

Dated: December 16, 2000

BEFORE THE
SURFACE TRANSPORTATION BOARD

EX PARTE NO. 582 (SUB-NO. 1)
MAJOR RAIL CONSOLIDATION PROCEDURES



**REPLY COMMENTS OF
WISCONSIN CENTRAL SYSTEM**

Wisconsin Central System ("WC")¹ submits these limited reply comments on the Board's proposed revisions to its "major" rail consolidation procedures. 49 C.F.R. § 1180, Subpart A. WC reiterates the important -- and, we fear, potentially overlooked -- interests of small and regional railroads in the Board's new merger regulations, and the need for the Board to assure that rules specifically developed with the six remaining mega-carriers in mind do not unduly or inadvertently harm other carriers. The opening comments highlight in a number of ways the importance of these considerations.

For example, some commenters note that the imposition of "competition-enhancing" conditions solely on merging carriers could create imbalance within the industry, and propose that any such conditions be extended to relevant non-merging carriers as well. See National Industrial Transportation League Comments, November 17, 2000, at 15-18. WC understands the nature of the underlying issue, see WC Opening Comments, November 16, 2000, at 3-4, but the proposed solution risks creating more harm than good if not carefully

¹ WC consists of Wisconsin Central Ltd., Fox Valley & Western Ltd., Sault Ste. Marie Bridge Company, Wisconsin Chicago Link Ltd. and Algoma Central Railway, Inc. Further background on WC is provided in the "Initial Comments of Wisconsin Central System" herein, dated May 15, 2000.

analyzed.² The potentially disproportionate impact of such conditions on small and regional carriers who happen to be in the zone of impact could be devastating. Ordering “enhanced competition” via reciprocal switching over the lines of all carriers within a designated terminal, NITL Comments at 17-18, may be one thing when all of the involved railroads are mega-carriers, and traffic within that terminal of necessity represents only a miniscule fraction of each carrier’s respective traffic base. It is quite another thing when the non-merging carrier is a short-line or regional railroad which derives a significant amount of its traffic from within that terminal. Such carriers may not easily absorb such a drastic change in their revenue base,³ and are unlikely to benefit from competitive “enhancements” imposed elsewhere. We understand and endorse the Board’s policy of protecting competition, not competitors. But that is a far cry from affirmatively harming competitors -- especially smaller railroads already operating in an ultra-competitive environment -- in a misguided effort to equalize access among the mega-carriers.

Indeed, any such component of the Board’s new merger policy that would treat the railroad industry as an undifferentiated monolith should be carefully considered and cautiously applied. We note, for example, that the proposed rules and many of the opening comments make blanket assumptions regarding product and geographic competition: that it has been seriously diminished through recent mergers, that it should be presumed lost in upcoming

² Such proposals also appear to implicate the broader policy debate over “open access.” As WC and other parties have previously pointed out, such policy issues should be considered, if at all, outside of this rulemaking on merger procedures.

³ This is particularly true given that the short-line/regional railroad will not have the geographic reach of the newly-admitted mega-carriers (and thus may be at a further competitive disadvantage), and likely will not have a broad customer base to which such losses can be passed on.

mergers, and that competitive “enhancements” are required to assure its presence in the future. Once again, nearly all of these arguments focus on the mega-carriers and the high-volume, bulk commodity and/or single-line components of the rail transportation industry that they represent. WC can assure the Board that product and geographic competition is viewed very differently in our segment of the industry, and is very much alive. The point is that informed and individualized analysis is imperative where short-line and regional railroads are involved -- and not the application of policies and presumptions designed solely with the mega-carriers in mind.

For these reasons, WC has previously and strongly questioned whether mergers involving smaller Class I's or potential Class I's should be subject to the new “major” consolidation procedures. WC Opening Comments at 7-10. WC recommends that position to the Board again here. The added if somewhat circumscribed point of these reply comments is similar: that in considering the interests of non-merging carriers in a consolidation proceeding, there are crucial distinctions between the remaining Class I mega-carriers in the United States and the feeder system of regional and short-line railroads -- differences that must be reflected in any policies that the Board adopts.

More broadly, these issues reinforce what must be a significant focus of these proceedings: the appropriate and desired role of regional and short-line carriers in the rail industry of the future. The Board's new merger regulations are self-consciously addressed to the “final” structure of the industry, meaning the development of two transcontinental mega-carriers. We believe the Board, shippers and other interested parties agree that, within that system, a feeder system of regional and short-line railroads has a vital role to play. Yet the effective participation of those railroads -- and in some instances even the very presence of such carriers -- in the rail network of the future is by no means assured. The marketplace, operating theatre and

economic realities for mega-carriers differ vastly from those of short-lines and regionals. In designing rules for a game dominated by the mega-carriers, the Board must be vigilant that smaller carriers are treated separately, fairly and appropriately -- and not simply as a subset of their mega-carrier brethren. Failure to do so threatens much of the remarkable progress that the non-Class I segment of the industry has achieved over the last two decades.

WHEREFORE, WC respectfully submits these reply comments on the Board's proposed regulations governing major rail consolidation transactions under 49 U.S.C. § 11323, et seq. and 49 C.F.R. § 1180, Subpart A.

Respectfully submitted,

By: 

Janet H. Gilbert

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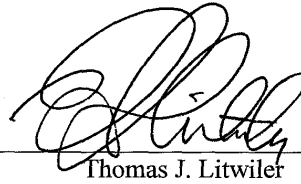
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LTD., FOX VALLEY & WESTERN LTD.,
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ALGOMA CENTRAL RAILWAY, INC.**

Dated: December 16, 2000

CERTIFICATE OF SERVICE

I hereby certify that on this 16th day of December, 2000, a copy of the foregoing **Reply Comments of Wisconsin Central System** was served by first-class mail, postage prepaid, upon all parties of record in this proceeding, as identified on the service list issued by the Surface Transportation Board on April 28, 2000 and revised on May 10, 2000, May 12, 2000 and November 8, 2000.



Thomas J. Litwiler